



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref: B1/15C
G12/34/6C

18 September 2012

The Chief Executive
All Authorized Institutions

Dear Sir/ Madam,

Sale and marketing of Mandatory Provident Fund (“MPF”) schemes

This circular sets out the requirements applicable to authorized institutions’ (“AIs”) sale and marketing of MPF schemes.

The statutory regime for the regulation of MPF intermediaries will come into operation on 1 November 2012 along with the Employee Choice Arrangement. In this connection, the Mandatory Provident Fund Schemes Authority (“MPFA”) has issued Guidelines on Conduct Requirements for Registered Intermediaries (“MPFA Guidelines”) on 14 September 2012. A copy of the MPFA Guidelines is attached at **Annex**.

AIs should ensure that they and their staff concerned comply with the applicable requirements under the Mandatory Provident Fund Schemes Ordinance, the codes, guidelines, rules, regulations and circulars issued by the MPFA in the conduct of MPF intermediary activities. The HKMA’s Supervisory Policy Manual module MP-1 “Supervision of Mandatory Provident Fund Intermediaries” will be superseded by the MPFA Guidelines when they take effect on 1 November 2012.

Having regard to the salient features of MPF schemes and the MPFA Guidelines, the HKMA’s enhanced measures¹ for sale of investment products have been adapted in relation to AIs’ MPF intermediary activities as follows:

¹ The enhanced measures are set out in the HKMA circular “Implementation of recommendations in the HKMA’s Report on Issues Concerning the Distribution of Structured Products Connected to Lehman Brothers” of 25 March 2009.

Sale and marketing activities and constituent funds selection in branches

Following the physical segregation arrangements for investment products in general, the sale and marketing processes for MPF registered schemes or constituent funds, as well as the customer's selection of constituent funds should only take place in the investment corner.

Audio recording

It is not mandatory to audio record the face-to-face sale, marketing and constituent funds selection processes of MPF schemes if no risk mismatch is involved. As a consequence of the physical segregation arrangement and the availability of audio recording system in the investment corner of AIs, AIs and their staff concerned should implement the audio recording requirement (rather than post-sale call or post-sale confirmation) for risk mismatch cases as set out in Item III.30 of the MPFA Guidelines.

Registration-related matter

Also, in the light of the implementation of the statutory regulatory regime for MPF intermediaries, AIs whose MPF intermediary staff have not yet registered as relevant individuals ("ReIs") for Type 1 and/or Type 4 regulated activity/(ies) as defined in the Securities and Futures Ordinance during the transitional period² (these staff must be the AI's pre-existing sponsored MPF individual intermediaries immediately before 1 November 2012) are reminded that they should put in place proper policies and procedures to, inter alia:

- ensure the relevant staff are and continue to be fit and proper to act as their MPF subsidiary intermediaries (which includes, without limitation, possessing sufficient knowledge to engage in MPF intermediary activities); and
- take prompt action to remove a non-ReI's MPF registration if he/she is found to have committed misconduct or to be no longer fit and proper.

AIs should take prompt action to put in place adequate control procedures and measures to ensure compliance with all applicable requirements when they become effective. In addition, AIs should provide sufficient training to all relevant staff so that they can properly handle customer enquiries. The HKMA will assess the compliance of AIs with the applicable requirements in its supervisory process.

² "Transitional period" means the period of 2 years beginning on 1 November 2012 under the Mandatory Provident Fund Schemes (Amendment) Ordinance 2012.

If you have any questions regarding this letter, please feel free to contact Ms Alice Lee at 2878-1603 or Mr Kevin Sham at 2878-1594.

Yours faithfully,

Meena Datwani
Executive Director (Banking Conduct)

Encl.

c.c. MPFA (Attn: Mr Darren McShane, Executive Director (Regulation and Policy))
Insurance Authority (Attn: Ms Nancy Chien, Acting Assistant Commissioner of Insurance (Enforcement))
Securities and Futures Commission (Attn: Mr Stephen Po, Senior Director of Intermediaries Supervision)